PRESS STATEMENT

Governor's Statement

H.E. Dr. Eyob Tekalign Governor, National Bank of Ethiopia Addis Ababa • July 2026

Good afternoon, and thank you for joining us.

As this is the first time I am addressing the press directly following a meeting of the Monetary Policy Committee, I would like to use a few moments to explain the Committee itself, before turning to its findings and decisions.

The Monetary Policy Committee was established under Article 23 of the NBE Establishment Proclamation 1359/2025. Its mandate is to review, on a regular basis, the state of the Ethiopian economy — real sector activity, inflation, the external sector, and developments in the monetary, financial and fiscal domains, alongside the global environment — and, on the basis of that review, to recommend monetary policy measures for approval by the Board of the National Bank. This is the Committee's seventh meeting. Going forward, it is our intention that a briefing of this kind will follow each meeting of the Committee, so that the public, the markets, and you in the media have a clear and timely account of our reasoning. This reflects a broader commitment on the part of the National Bank to conduct its policy with transparency and accountability, consistent with practice at central banks internationally.

Let me now turn to the Committee's review of economic and financial developments, before setting out the policy decisions the Board has approved.

Review of Economic and Financial Developments

Inflation

Ethiopia recorded a sustained disinflation because of its economic reform, with headline inflation reaching single digits by December 2025 — a remarkable achievement. Since April 2026, however, headline inflation has risen again, driven by fuel supply disruptions arising from the conflict in the Middle East. Inflation stood at 13.4 percent in May, up from 11.7 percent in April and 9.7 percent in December, with both food inflation, at 15.0 percent, and non-food inflation, at 11.1 percent,

contributing to this increase. The Committee's assessment is that inflation is likely to remain in double digits over the six-month forecast horizon, with possible moderation by December 2026.

Growth

The Committee noted that the Ethiopian economy has sustained growth momentum over the past eight years, with real GDP growth averaging 7.5 percent. In FY 2024/25, growth reached 9.2 percent, while growth is projected at 10.2 percent for FY 2025/26. High-frequency indicators monitored by the National Bank point to continued strength in manufacturing — cement, electricity generation and iron and steel output — and in services, particularly tourism and air transport. On the other hand, export volumes of coffee and oilseed, and import volumes of raw materials and petroleum, have declined relative to the same period last year.

Monetary Developments

Reserve money growth has decelerated, to 43.0 percent year-on-year in FY 2025/26 from 66.4 percent in the same period last year, though it remains elevated, driven mainly by the accumulation of net foreign assets from gold operations. Broad money growth also moderated, to 32.7 percent from 35.2 percent, with growth now driven by both net foreign assets and domestic credit, in contrast to the pre-reform period when domestic credit alone was the dominant factor.

Interest Rates

Short-term market interest rates have remained positive in real terms. The weighted average T-bill yield declined to 12.3 percent in May 2026 from 15.5 percent a year earlier, with the 91-day yield falling to 11.0 percent from 16.1 percent. The T-bill market recorded strong demand, with oversubscription of approximately Birr 667.8 billion, and broader participation from individual investors through newly established investment banks. The 7-day interbank rate declined to 14.6 percent in May from 18.0 percent in March, and interbank money market turnover surpassed Birr 3.0 trillion as of May.

The Banking and Financial Sector

The sector has remained resilient, with encouraging trends in deposit mobilization and loan collection, and healthy indicators of asset quality, non-performing loans and capital buffers. The loan-to-deposit ratio of private banks has declined to 72.7 percent, from 90.3 percent in 2022/23, reflecting improved liquidity management by banks.

Fiscal Policy

Fiscal policy has remained prudent, continuing to support the Bank's tight monetary stance. The government has maintained its commitment, in place since July 2024, to refrain from direct advances from the National Bank.

The External Sector

Performance strengthened markedly in FY 2025/26. The balance of payments recorded an overall surplus, a reversal from the pre-reform deficit. This is supported by a threefold increase in export earnings and improved transfers. The current account deficit narrowed from USD 6.2 billion in 2023/24 to USD 1.8 billion in 2025/26, and foreign exchange reserves have increased to twenty times their pre-reform level.

The Global Environment

The IMF's July 2026 World Economic Outlook projects global growth of 3.0 percent in 2026, moderating slightly on account of the Middle East conflict, with 2027 growth forecast slightly improved to 3.4 percent. Global headline inflation is projected to rise to 4.7 percent in 2026 before declining to 3.9 percent in 2027. Despite the recent memorandum of understanding between the United States and Iran, uncertainties remain.

The Committee's Assessment and the Board's Decisions

The Committee's judgment is that the tight monetary policy stance adopted since the reform remains necessary, given continued inflationary pressure from international oil price developments, and must be maintained to secure the Bank's objective of single-digit inflation over the medium term. On this basis, the Committee recommended, and the Board approved, five measures. I want to underscore that these five measures are not five separate decisions. They form a single, coherent policy package, and I will explain the logic that connects them before setting out each in turn.

The starting point is that the Bank is now transitioning from direct to indirect instruments of monetary policy. That transition is what allows us, **first, to remove the credit cap in full.** The cap was introduced in 2024 as a temporary measure to contain credit growth while this transition was under way. It has served that purpose, and its removal reflects the fact that the Bank now has a fully functioning interest-rate-based framework at its disposal. I want to be explicit on this point: this is a change in instrument, not a change in stance.

Because removing the cap on its own would ease pressure on credit growth, the Committee judged that an offsetting measure was required to keep the overall policy stance tight. That is, **second, the increase in the NBE policy rate by one percentage point (from 15 to 16 percent),** with the existing three-percentage-point band maintained. The rate increase and the removal of the cap should therefore be read together: one instrument is retired, and the other is strengthened, so that the net effect is a monetary stance that is, if anything, tighter than before.

Third, as a further safeguard within this same logic, the Committee introduced a targeted additional reserve requirement, to apply where regular assessment shows that a bank's loan-to-deposit ratio is contributing to inflationary pressure. This gives the National Bank a precise instrument to act on individual banks, rather than the economy-wide constraint the credit cap once provided, should credit expansion in any part of the system begin to threaten the inflation outlook.

Fourth and fifth, the Committee turned to the foreign exchange market, where two further measures support the same objective from a different angle. Based on the Committee's recommendation and approval by the Board, we are reducing the National Bank's foreign exchange commission rate, from 2.5 percent to 1.5 percent, to lower import-related costs and contain the pass-through of external prices into domestic inflation. And we are reducing the surrender requirement on goods export proceeds, from 50 percent to 30 percent, to strengthen export competitiveness, deepen the foreign exchange market, and improve price discovery.

Taken together, these five measures reflect one consistent judgment by the Committee: that Ethiopia's monetary framework has matured to the point where it can rely on indirect, market-based instruments, and that this maturity must be matched by continued discipline, not by any easing of our resolve on inflation.

The Committee will meet again by the end of September 2026, or earlier should conditions warrant. The National Bank remains committed to its price stability mandate, and to the transparency this briefing is intended to represent going forward.

Thank you. I will now take your questions.

H.E. Dr. Eyob Tekalign
Governor, National Bank of Ethiopia